

NORTHEAST IOWA MENTAL HEALTH CENTER

FINANCIAL STATEMENTS

JUNE 30, 2006

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NORTHEAST IOWA MENTAL HEALTH CENTER

BOARD OF DIRECTORS AND STAFF MEMBERS

June 30, 2006

President:
Vice President:
Secretary:
Treasurer:

Emory Westcott (Howard)
Becky Cleveland (Gundersen Lutheran)
Sallee A. Scarff-Muehlbauer (Clayton)
Sallee A. Scarff-Muehlbauer (Clayton)

Steve Bouska, Winneshiek
Bill Clark, Allamakee
Larry Gibbs, Clayton
Stuart Johnston, Winneshiek
John Lacewell, Allamakee
Bill Nixon, Winneshiek

Kristen Olson, Allamakee
Mark Smith, Fayette
Vicki Smith, Fayette
Kathy Strike, Howard
John Youngblut, Clayton
Mary Jo Wilhelm, Howard

STAFF MEMBERS

Administration

Patrick Smith, Executive Director
B.J. Dave, M.D., Medical Director
Marcia Oltrogge, MA, CADC, Associate Director
Marlene Pins, MIS Director
Jan Jauert, Administrative Assistant

Medical Staff

Vithalji Modha, M.D.
Afshin Shirani, M.D.

Intensive Services Staff
Cheryl Hermansen, BA

Counseling Staff
Susan Doll, LISW, ACADC
Lynda Elgers, MA
Carol Hagen, LISW
Kimberly Havens, BA, CADC
Larry Heckert, BA, CADC
Jamie Lanus, LISW
Rebecca Loven, M. Ed.
Darla Nave, MA*
Ginger O'Connell, LBSW, ACADC
Cynthia Peterson, MA, LISW
Jennifer Shaw, LMSW*
Karen Tenneson, LMSW
Karla Wolfs, LMSW
Lee Zook, PhD, LISW*

Community Support Staff
Wendy Buenzow, BA
Virginia Leidahl, LBSW
Ann Pahlas, LBSW

Wellness Recovery Staff
Brenda Burke, BSW

Support Staff

Diane Decker
Kathy Holtey
Michelle Hurlbut
Dawn Levenhagen
Sharla Lieder
Susan Looney
Angella Luther*
Marlys Sowers*
Jaynece Tekippe
Kathy Villa

*Terminated prior to or on June 30, 2006

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INDEPENDENT AUDITOR'S REPORT ON THE
FINANCIAL STATEMENTS

To the Board of Directors
Northeast Iowa Mental Health Center
Decorah, Iowa

We have audited the accompanying statements of financial position of Northeast Iowa Mental Health Center (a nonprofit corporation) as of June 30, 2006 and 2005, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northeast Iowa Mental Health Center as of June 30, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 17, 2006, on our consideration of Northeast Iowa Mental Health Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Hacker, Nelson & Co., P.C.

Decorah, Iowa
August 17, 2006

NORTHEAST IOWA MENTAL HEALTH CENTER

STATEMENTS OF FINANCIAL POSITION

June 30, 2006 and 2005

ASSETS

	2006	2005
CURRENT ASSETS		
Cash and cash equivalents	\$ 274,242	\$ 367,569
Accounts receivable, less allowance for adjustments of 2006 \$28,003; 2005 \$40,776	153,599	195,285
Prepaid expenses	<u>18,739</u>	<u>24,899</u>
Total current assets	<u>446,580</u>	<u>587,753</u>
PROPERTY AND EQUIPMENT, net	<u>1,012,896</u>	<u>1,043,803</u>
ASSETS WHOSE USE IS LIMITED		
Cash and cash equivalents	926	107,635
Investments, at fair market value	392,203	211,250
Accrued interest receivable	<u>2,424</u>	<u>1,509</u>
Noncurrent assets whose use is limited	<u>395,553</u>	<u>320,394</u>
	<u><u>\$ 1,855,029</u></u>	<u><u>\$ 1,951,950</u></u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	\$ 22,784	\$ 23,776
Deferred revenue	19,344	
Accrued salary and vacation pay	<u>46,807</u>	<u>49,271</u>
Total current liabilities	<u>88,935</u>	<u>73,047</u>
NET ASSETS		
Unrestricted net assets		
Designated for specified purposes	561,500	481,385
Undesignated	<u>1,204,594</u>	<u>1,397,518</u>
Total net assets	<u>1,766,094</u>	<u>1,878,903</u>
	<u><u>\$ 1,855,029</u></u>	<u><u>\$ 1,951,950</u></u>

See Notes to Financial Statements.

NORTHEAST IOWA MENTAL HEALTH CENTER

STATEMENTS OF ACTIVITIES
June 30, 2006 and 2005

	2006	2005
SUPPORT AND REVENUE		
Support		
Grants and contracts	<u>\$ 648,203</u>	<u>\$ 740,679</u>
Revenue and gains		
County fees	93,356	120,731
Other		
Fees	587,031	694,055
Other services	20,091	7,709
Interest	17,205	13,062
Dividends	677	561
Gifts	250	635
Unrealized loss on investments	(1,285)	(280)
In-kind contributions	2,400	2,670
Miscellaneous	5,654	6,119
Total revenue and gains	<u>725,379</u>	<u>845,262</u>
Total support and revenue	<u>1,373,582</u>	<u>1,585,941</u>
EXPENSES		
Program services		
Mental Health program	737,394	859,429
Alcohol and Related Problems program	423,070	502,023
Total program services	<u>1,160,464</u>	<u>1,361,452</u>
Support services		
General and administrative	325,927	336,280
Total expenses	<u>1,486,391</u>	<u>1,697,732</u>
Change in unrestricted net assets	(112,809)	(111,791)
NET ASSETS, beginning	<u>1,878,903</u>	<u>1,990,694</u>
NET ASSETS, ending	<u>\$ 1,766,094</u>	<u>\$ 1,878,903</u>

See Notes to Financial Statements.

NORTHEAST IOWA MENTAL HEALTH CENTER

STATEMENTS OF CASH FLOWS
June 30, 2006 and 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (112,809)	\$ (111,791)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	56,334	61,433
Provision for adjustments	(12,773)	4,896
Unrealized loss on investments	1,285	280
Changes in:		
Accounts receivable	54,459	(3,106)
Accrued interest	(915)	1,100
Prepaid expenses	6,161	14,509
Accounts payable and accrued expenses	(992)	8,040
Deferred revenue	19,344	
Due to others	-	
Accrued salaries and benefits	<u>(2,464)</u>	<u>(2,565)</u>
Net cash provided by (used in) operating activities	<u>7,630</u>	<u>(27,204)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment, furniture and fixtures	(25,427)	(59,993)
Purchase of investments	<u>(182,239)</u>	<u>(6,519)</u>
Net cash used in investing activities	<u>(207,666)</u>	<u>(66,512)</u>
Net decrease in cash	<u>(200,036)</u>	<u>(93,716)</u>
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>475,204</u>	<u>568,920</u>
End of year	<u>\$ 275,168</u>	<u>\$ 475,204</u>
STATEMENT OF FINANCIAL POSITION RECONCILIATION		
Current assets	\$ 274,242	\$ 367,569
Assets whose use is limited	<u>926</u>	<u>107,635</u>
	<u>\$ 275,168</u>	<u>\$ 475,204</u>

See Notes to Financial Statements.

NORTHEAST IOWA MENTAL HEALTH CENTER

STATEMENTS OF FUNCTIONAL EXPENSES
Years Ended June 30, 2006 and 2005

	2006			2005		
	Program Services			Program Services		
	Mental Health Program	Alcohol and Related Problems Program	Supporting Services General and Administrative	Mental Health Program	Alcohol and Related Problems Program	Supporting Services General and Administrative
Salaries	\$ 366,114	\$ 257,573	\$ 200,663	\$ 469,990	\$ 321,513	\$ 212,017
Payroll taxes	30,514	21,648	16,790	37,816	28,660	17,915
Employee Benefits	82,292	58,591	45,355	109,626	69,657	47,817
Total personnel	478,920	337,812	262,808	1,079,540	617,432	419,830
Psychiatric consultation	87,894		87,894	45,007		45,007
Independent contractors	5,885	1,395		7,280	16,977	3,895
Professional fees	8,629	4,879	4,299	17,807	13,613	8,011
Day treatment expenses, child	9,236	6,497	5,062	20,795	8,368	5,947
Building repair and maintenance	10,630	10,504	6,919	28,053	11,918	10,797
Office supplies and expense	4,814	2,074	2,164	9,052	6,006	2,879
Telephone	11,157	5,724	5,348	22,229	11,700	6,517
Mileage and travel	2,240	1,365	1,152	4,757	2,124	1,384
Rent	5,943	4,253	3,283	13,419	8,058	5,722
Janitorial services	6,174	4,371	3,394	13,939	4,915	3,116
Equipment repair and maintenance	1,773	1,278	983	4,034	2,186	1,532
Equipment rental	43,532	4,010	15,824	12,802	56,334	49,491
Depreciation and amortization	4,010			19,834	14,283	8,534
Bad debts					5,590	-
Property tax						5,590
Other expenses	56,557		27,094	17,713	101,364	41,233
Total expenses	\$ 737,394	\$ 423,070	\$ 325,927	\$ 1,486,391	\$ 859,429	\$ 502,023

See Notes to Financial Statements.

NORTHEAST IOWA MENTAL HEALTH CENTER

NOTES TO FINANCIAL STATEMENTS

1. Organization and Function and Significant Accounting Policies

a. Organization and Function

The Northeast Iowa Mental Health Center is a private, nonprofit corporation organized under Chapter 504A.36 and Chapter 230A of the Code of Iowa operating under the fictitious name of Northeast Iowa Behavioral Health, Inc. The Northeast Iowa Mental Health Center provides outpatient mental health evaluation, treatment and education services to the four counties of Allamakee, Clayton, Howard, and Winneshiek. In addition, substance abuse services are provided to the previously mentioned counties plus Fayette County. The Northeast Iowa Mental Health Center's central office is in Decorah with a branch office in Oelwein. Satellite offices are located in Cresco, Elkader, Waukon and West Union, Iowa.

Northeast Iowa Mental Health Center and Gundersen Lutheran, Inc. have forged a corporate relationship to aid the coordination and delivery of quality health and education services to the residents of Northern Iowa. This established health system offers the sharing of resources and coordinating of services to clients. There is no financial dependence through this relationship.

Funding sources are patient fees, third-party payors, contracts with the four county Boards of Supervisors, contracts with MBC of Iowa an affiliate of Magellan Behavioral Health, First Judicial District Community Corrections for 321J treatment, the Division of Behavioral, Developmental and Protective Services for Families, Adults and Children of the Iowa Department of Human Services, and various grants that become available from year to year.

Accreditation is through the Division of Behavioral, Developmental and Protective Services for Families, Adults and Children of the Iowa Department of Human Services. Licensing is through the Division of Health Promotion, Prevention and Addictive Behaviors of the Iowa Department of Public Health. The Center is also a member of the Iowa Association of Community Providers, the National Council for Community Behavioral Healthcare, Iowa Substance Abuse Program Directors Association and the Iowa Substance Abuse Supervisors Association.

b. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

NOTES TO FINANCIAL STATEMENTS

1. Organization and Function and Significant Accounting Policies (Continued)

c. Financial Statement Presentation

The Center follows Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations." Under SFAS No. 117, the Center is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As required by this statement, the Center has prepared its external financial statements to present the three classes of net assets required. As permitted by this standard, the Center has discontinued its use of fund accounting and has, accordingly, reclassified its financial statements to present classes of net assets.

The Center follows SFAS No. 116, "Accounting for Contributions Received and Contributions Made." In accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. The Center has not received any contributions with donor-imposed restrictions that would result in temporarily or permanently restricted net assets.

d. Cash and Cash Equivalents

For purposes of reporting the statements of cash flows, the Center includes all unrestricted cash accounts, money market accounts, and certificates of deposit with a maturity of 90 days or less as cash and cash equivalents on the accompanying financial statements.

e. Patient Services Revenue

Patient services revenue is reported at the estimated realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Balances that are still outstanding after management has used reasonable collection efforts are written off to bad debts. The allowance for adjustment was \$28,003 and \$40,776 at June 30, 2006 and 2005, respectively.

f. Investments

The Center follows SFAS No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations." Under SFAS No. 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets.

The fair value of investment securities are based on quoted market prices for those investments.

g. Property and Equipment

Property and equipment acquired by the Center are considered to be owned by the Center. Expenditures for maintenance repairs and minor replacements are charged to the current year, while major replacements and betterments costing over \$500 per item are capitalized. Depreciation is computed by the straight-line method with estimated useful lives ranging from 20 to 40 years for buildings and 5 to 10 years for equipment.

NOTES TO FINANCIAL STATEMENTS

1. Organization and Function and Significant Accounting Policies (Continued)

h. Support and Revenue

Support in the statements of activities consists of nonreciprocal receipts of grants and contracts. Revenues are classified as private, county, or other revenues. Private revenues represent revenues which the Center has received from patient services and contracted third-party payors.

A portion of other revenues represents revenues from MBC of Iowa an affiliate of Magellan Behavioral Health, in the Alcohol and Related Problems Program.

i. Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities and in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

j. Income Taxes

Northeast Iowa Mental Health Center is a nonprofit corporation qualifying for exempt status under Section 501(c) (3) of the Internal Revenue Code and is not required to pay income tax. The Center files the required annual informational return for organizations exempt from income tax. In addition, the Center has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509(a) of the Internal Revenue Code. There was no unrelated business income for 2006.

k. Pension Plan

The Center has a defined contribution pension plan for employees who have completed one year (date of hire to anniversary of that date) with a minimum of 1,000 hours of service to Northeast Iowa Mental Health Center. Thereafter, the Center contributes 10% of the employee's salary into the pension plan. The employee is not allowed to contribute. Vesting occurs at the rate of 33 1/3% per year.

The pension plan is administered by Mutual of America, Milwaukee, Wisconsin. Employees of the Center are eligible to participate in tax sheltered annuities. The Center does not contribute to the employee's tax sheltered annuities.

l. Accrued Vacation

The Center accrues vacation pay as a liability and as an expense on the statements of activities in the year it is earned and reduces the liability account in the year the vacation is taken.

m. Concentrations of Credit Risk

Financial instruments that potentially subject the Center to significant concentrations of credit risk consist principally of accounts receivables and cash. Receivables are primarily from the U.S. Government, the State of Iowa and local governments in Iowa, patients and third-party payors. These receivables are uncollateralized.

NOTES TO FINANCIAL STATEMENTS

1. Organization and Function and Significant Accounting Policies (Continued)

m. Concentrations of Credit Risk (Continued)

As of the balance sheet date, cash balances on deposit with financial institutions exceeded the amount insured by the Federal Deposit Insurance Corporation (FDIC) by \$181,793. These cash balances fluctuate during the year and at various times may exceed the \$100,000 insurance limit. Excess cash is invested daily to increase income. These investments are collateralized by bonds purchased by the financial institution. Management continually monitors the financial condition of the financial institutions along with the cash balances, which are maintained on deposit with them in order to minimize this potential risk.

n. Management Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Investments

Investments at June 30, 2006 and 2005 are carried at fair value and are composed of the following:

	2006		2005	
	Cost	Fair Value	Cost	Fair Value
Investments whose use is limited				
Mutual funds	\$ 16,817	\$ 17,050	\$ 16,141	\$ 17,267
Certificates of deposit	375,238	375,153	193,676	193,983
	<u>\$ 392,055</u>	<u>\$ 392,203</u>	<u>\$ 209,817</u>	<u>\$ 211,250</u>

The following schedule summarizes the investment return for the years ended June 30, 2006 and 2005:

	2006	2005
Investment income	\$ 17,882	\$ 11,874
Unrealized loss	(1,285)	(280)
	<u>\$ 16,597</u>	<u>\$ 11,594</u>

The following tabulation summarizes the relationship between cost and market value of investment assets:

	Cost	Market Value	Excess of Market Over Cost
Balance, beginning of year	\$ 209,817	\$ 211,250	\$ 1,433
Decrease in unrealized gains on investments			(1,285)
Balance, end of year	<u>\$ 392,055</u>	<u>\$ 392,203</u>	<u>\$ 148</u>

NOTES TO FINANCIAL STATEMENTS

2. Investments (Continued)

The Center incurred no direct investment expenses during the years ended June 30, 2006 and 2005.

3. Property and Equipment

Major classifications of property and equipment as of June 30 are summarized as follows:

	2006	2005
Buildings	\$1,339,655	\$1,323,845
Office furniture and equipment	<u>427,472</u>	<u>420,149</u>
	1,767,127	1,743,994
Accumulated depreciation	<u>754,231</u>	<u>700,191</u>
	<u>\$1,012,896</u>	<u>\$1,043,803</u>

The total depreciation expense for the Center for the years ended June 30, 2006 and 2005 was \$56,334 and \$61,433, respectively.

4. Assets Whose Use is Limited

Assets of \$395,553 (\$320,394 in 2005) have been designated by the Board of Directors for the improvement, replacement, and expansion of property and equipment. Of this total, \$325,020 is designated for operating reserve, \$1,064 for a Medicare claiming reserve and \$69,469 is for equipment replacement. Management expects that a portion of the board-designated funds may be required for operations in the fiscal year ended June 30, 2007. This designation is subject to change at the discretion of the Board and is not a legal restriction on use of the assets.

5. Contributed Services

Contributed services, which require special skills that would be purchased if not donated, or create or enhance a nonfinancial asset are recognized in the statements of activities. This amount equaled \$2,400 and \$2,670 for the years ended June 30, 2006 and 2005, respectively.

6. Fund-Raising Expense

The Center incurred no fund-raising expenses for the years ended June 30, 2006 and 2005.

7. Pension Plan

The total pension expense for the Center for the years ended June 30, 2006 and 2005 was \$77,848 and \$91,262, respectively.

8. Interest Expense

For the years ended June 30, 2006 and 2005, the Center incurred no interest cost, and accordingly, no interest expense was capitalized during these periods.

9. Lease Obligations

The Center leases office space for its satellite offices under various month to month leases with \$4,757 and \$4,444 charged to expense for the years ended June 30, 2006 and 2005, respectively.

The Center also rents equipment under various month to month leases which totaled \$4,034 and \$4,716 for the years ended June 30, 2006 and 2005, respectively.

NOTES TO FINANCIAL STATEMENTS

10. Commitments and Contingencies

The Center's employees accumulate sick leave days for subsequent use. These accumulations are not recognized as expenses by the Center until used. The Center's approximate unrecognized accrued sick leave at June 30, 2006 is \$165,947 (\$160,991 at June 30, 2005). Sick leave becomes payable when used by the employees. The Center's policy prohibits payoff of accumulated benefits at termination of employment. The Board of Directors considers this amount designated, however, no assets have been specifically earmarked for this purpose.

Northeast Iowa Mental Health Center's medical director, Dr. Nicola resigned effective, January 21, 2005. The Center has been without a permanent psychiatrist since that time and has been providing limited services to patients provided by temporary psychiatrists. On April 4, 2005, the Center entered into a contingency search agreement with FCS for the recruitment of a psychiatrist. Dr. Neelu Gill signed an employment agreement on July 19, 2005, to provide medical services for three years commencing in July 2006. Under the agreement, in addition to compensation and benefits, the Center will pay for relocation costs up to \$7,000 and attorney's fees up to \$5,000 to help Dr. Gill obtain H-1B visa status. In accordance with the contingency search agreement with FCS, the Center paid half the fee, \$10,000 upon Dr. Gill signing the employment agreement. The remaining \$10,000 will be due when Dr. Gill begins work at the Center in July 2006. The Center will be refunded the initial \$10,000 paid to FCS should Dr. Gill fail to commence employment or depart within 30 days of start date. Subsequently, Dr. Gill has started employment with the Center and has been employed for more than 30 days, therefore, the \$10,000 remaining on the contract has been paid in fiscal year 2007 and recorded as an expense for that period.

11. Risk Management

Northeast Iowa Mental Health Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The Center assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims for these risks have not exceeded commercial insurance coverage for the past three years.

12. Support from Governmental Units

The Center receives a substantial portion of its support from federal, state, and local governments. These various governments are the source for approximately one half of the Center's revenue and support. A significant reduction in the level of this support would have a significant effect on the Center's programs and activities.

Effective July 1, 2005, the Center lost its contract with the Fayette County Board of Supervisors as the County's designated mental health provider. Patients receiving County support for mental health care only no longer receive treatment from the Center. The Center still provides mental health and emergency services in Fayette County to patients not receiving County support. In addition, the Substance Abuse contract with the Iowa Department of Public Health continues to be in effect. The Center can treat substance abuse and dual disorder patients under this contract and receive reimbursement. Management's assessment on the loss of the Fayette contract is that of revenue neutrality.

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INDEPENDENT AUDITOR'S REPORT ON THE
SUPPLEMENTARY INFORMATION

To the Board of Directors
Northeast Iowa Mental Health Center
Decorah, Iowa

Our report on our audits of the basic financial statements of Northeast Iowa Mental Health Center (a nonprofit corporation) as of and for the years ended June 30, 2006 and 2005 appears on page 2. We conducted our audits in accordance with U.S. generally accepted auditing standards. These audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information listed on pages 14 through 21 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Hacker, Nelson & Co., P.C.

Decorah, Iowa
August 17, 2006

NORTHEAST IOWA MENTAL HEALTH CENTER

STATEMENT OF FINANCIAL POSITION INFORMATION
June 30, 2006

NORTHEAST IOWA MENTAL HEALTH CENTER

STATEMENT OF FINANCIAL POSITION INFORMATION (Continued)

June 30, 2006

ASSETS WHOSE USE IS LIMITED

	Interest Rate	Maturity Date	
Mental Health Program			
Cash Equivalents			
Money Market Accounts			
Edward D. Jones & Company	Variable		<u>115,000</u>
Mutual Fund			
U.S. Government Securities Fund			
American Funds Service Company	Variable		<u>115,000</u>
Certificate of Deposits			
Edward D. Jones & Company			
American National	4.75%	February 22, 2007	
Farmers and Merchants Savings Bank	2.45%	June 18, 2007	
Bank of the West	5.25%	July 9, 2007	
Viking State Bank & Trust	5.00%	May 10, 2007	
Northeast Security Bank	4.10%	April 1, 2007	
Decorah Bank & Trust	4.50%	January 25, 2007	
Decorah Bank & Trust	2.50%	September 10, 2006	
			<u>115,120</u>
Accrued interest			<u>1,670</u>
Total assets whose use is limited			<u>116,790</u>

See Independent Auditor's Report on the Supplementary Information.

NORTHEAST IOWA MENTAL HEALTH CENTER

STATEMENT OF CHANGES IN NET ASSETS (By Program)
Year Ended June 30, 2006

	Mental Health Program	Related Problems Program	Alcohol and Other-Program Eliminations	Total All Programs
\$ 771,769	\$ 617,648	\$ (15,835)	\$ 1,373,582	
918,650	583,576	(15,835)		1,486,391
(145,881)	34,072	None		(112,809)
1,429,547	449,356	None		1,878,903
\$ 1,282,666	\$ 483,428	\$ None		\$ 1,766,094

NORTHEAST IOWA MENTAL HEALTH CENTER

STATEMENT OF ACTIVITIES INFORMATION
Year Ended June 30, 2006

	Mental Health Program	Alcohol and Related Problems Program	Inter-program Eliminations	Total All Programs
SUPPORT AND REVENUE				
Support	\$ 135,777	\$ 360,727 16,883	\$ 135,777	\$ 360,727 16,883
County block grants				
Division of Health, Promotion, Prevention and Addictive Behaviors contract				
Iowa Department of Corrections	22,406	22,406		
Magellan Grant	27,321	27,321		
Harkin Grant	3,462	3,462		
NIATX	21,383	21,383		
University of Iowa contract				
Division of Behavioral, Developmental and Protective Services for Families, Adults and Children	30,122	30,122		
Mental Health Adult Grant				
Mental Health Child Grant				
Total support	270,593	377,610		648,203
Revenue and Gains				
County	71,257	71,257		
Outpatient fees	12,000	12,000		
Adult recovery	10,099	10,099		
Community support services				
	93,356	93,356		93,356
Other Revenue				
Fees				
Medicaid	30,026	30,026		
Medicare	171,670	171,670		
Patient fees	471,194	471,194		
Contracted third party payors	206,661	206,661		
Department of Health and Human Services	11,091	11,091		
Level II Training	12,412	12,412		
Community support services - MBC	34,218	34,218		
Community support services - other	2,023	2,023		
MBC services income	-	-		
County education	3,436	3,436		
OWI education	(10,950)	27,640		
Less adjustments	(114,195)	(287,524)		
Insurance write-offs		(63,855)		
	346,392	240,639		587,031

NORTHEAST IOWA MENTAL HEALTH CENTER

STATEMENT OF ACTIVITIES INFORMATION (Continued)
Year Ended June 30, 2006

	Mental Health Program	Alcohol and Related Problems Program	Inter-program Eliminations	Total All Programs
\$ 346,392	\$ 240,639			\$ 587,031
Sub-total forward from page 17				
SUPPORT AND REVENUE (Continued)				
Revenue and Gains (Continued)				
Other Revenue (Continued)				
Psychological services	19,569			19,569
Psychiatric services	522			522
Rent	15,835		\$ (15,835)	None
Interest	17,205			17,205
Dividends	677			677
Gifts	250			250
Unrealized loss on investments	(1,285)			(1,285)
In-kind contributions	2,400			2,400
Miscellaneous	6,255	(601)		5,654
Total other revenue	407,820	240,038	(15,835)	632,023
Total revenue and gains	501,176	240,038	(15,835)	725,379
Total support and revenue	\$ 771,769	\$ 617,648	\$ (15,835)	\$ 1,373,582

See Independent Auditor's Report on the Supplementary Information.

NORTHEAST IOWA MENTAL HEALTH CENTER

STATEMENT OF FUNCTIONAL EXPENSES INFORMATION
Year Ended June 30, 2006

	Program Services			Supporting Services			Total Expenses
	Mental Health Program	Alcohol and Related Problems Program	Total Inter-program Eliminations	Total Program Services	General and Administrative	Inter-program Eliminations	
Salaries	\$ 366,114	\$ 257,573		\$ 623,687	\$ 200,663		\$ 824,350
Payroll taxes	30,514	21,648		52,162	16,790		68,952
Employee benefits	82,292	58,591		140,883	45,355		185,238
Total personnel	478,920	337,812		816,732	262,808		1,079,540
Psychiatric consultation	87,894			87,894			87,894
Independent contractors	5,885	1,395		7,280			7,280
Professional fees	8,629	4,879		13,508			17,807
Day treatment expenses, Healthcare							
Building repair and maintenance	9,236	6,497		15,733	5,062		20,795
Office supplies and expense	10,630	10,504		21,134	6,919		28,053
Telephone	4,814	2,074		6,888	2,164		9,052
Mileage and travel	11,157	5,724		16,881	5,348		22,229
Rent	2,240	6,465	\$ (5,100)	3,605	2,933	\$ (1,841)	4,757
Janitorial services	5,943	4,253		10,196	3,283		13,479
Equipment repair and maintenance	6,174	4,371		10,545	3,394		13,939
Equipment rental	1,773	7,812	(6,534)	3,051	3,342	(2,359)	4,034
Depreciation and amortization	43,532			43,532	12,802		56,334
Bad debts	4,010	15,824		19,834			19,834
Property tax	56,557	27,094		83,651	17,713		101,364
Other expenses							
Total expenses	\$ 737,394	\$ 434,704	\$ (11,634)	\$ 1,160,464	\$ 330,127	\$ (4,200)	\$ 1,486,391

See Independent Auditor's report on the financial information.

NORTHEAST IOWA MENTAL HEALTH CENTER

STATEMENT OF FUNCTIONAL EXPENSES INFORMATION (Continued)
 Year Ended June 30, 2006

	Program Services			Support Services		
	Mental Health Program	Alcohol and Related Problems Program		Total Program Services	General and Administrative	
		Alcohol and Related Problems	Program		Support Services	General and Administrative
OTHER EXPENSES						
Heat, light, water and cable	\$ 12,086	\$ 8,721	\$ 20,807	\$ 6,703	\$ 11,140	\$ 1,905
Postage and shipping	3,394	2,515	5,909	1,905	7,413	1,112
Insurance/settlements	3,862	3,170	7,032	2,281	7,413	1,112
Conferences and conventions	3,754	2,127	5,881	1,871	7,413	1,112
Organization dues	1,996	1,374	3,370	-	7,413	1,112
Advertising	4,713	2,551	7,264	2,307	7,413	1,112
Board meeting expense	-	-	-	1,095	7,413	1,112
Computer support	1,484	1,057	2,541	818	7,413	1,112
Moving/recruitment	19,530	4,895	24,425	-	7,413	1,112
Miscellaneous	1,859	516	2,375	733	7,413	1,112
Emergency Answer Plus	3,879	168	4,047	-	7,413	1,112
Subscriptions	-	-	-	-	7,413	1,112
Total other expenses	\$ 56,557	\$ 27,094	\$ 83,651	\$ 17,713	\$ 111,144	\$ 1,114

NORTHEAST IOWA MENTAL HEALTH CENTER

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2006

Grantor/Program Title	Federal CPDA Number	Contract Number	Program Expenditures
Indirect			
U.S. Department of Justice, Office of Juvenile Justice and Delinquency Prevention			
Iowa Department of Human Services/HMW Partnerships for Children	16.540	Contract #CJJP-06-D1-004	\$ 2,914
Juvenile Justice and Delinquency Prevention	16.523	Contract #CJJP-06-D1-003	2,043
Juvenile Accountability Incentive Block Grant			<u>4,957</u>
Subtotal Department of Justice			
U.S. Department of Health and Human Services			
Iowa Department of Public Health			
Division of Health Promotion, Prevention and Addictive Behaviors			
Block Grant for Prevention and Treatment of Substance Abuse (1)	93.959		114,887
Division of Health Promotion & Chronic Disease Prevention			
Harkin Wellness Grant	93.283	Contract #5886HNG22	27,321
Iowa Department of Human Services			
Division of Behavioral, Developmental and Protective Services for			
Families, Adults and Children			
Block Grants for Community Mental Health Service			
Education Request for Proposal (Adult)	93.958	Contract #06-0324-401-6470-2349-26	30,122
Education Request for Proposal (Juvenile)	93.958	Contract #06-0324-401-6470-2349-26	30,122
Subtotal Department of Health and Human Services			<u>60,244</u>
The University of Iowa			
Centers for Medicare and Medicaid Services Research,			
Demonstrations and Evaluations	93.779		<u>21,383</u>
Subtotal Department of Health and Human Services			<u>223,835</u>
U.S. Department of Education			
Safe and Drug-Free Schools and Communities			
Safe Schools/Healthy Students Initiative			
Community Connections Safe Schools Healthy Students Consortium			
Allamakee Community School District	84.184		<u>30,188</u>
(1) Administered by MBC of Iowa			
			\$ 258,980

See Independent Auditor's Report on the Supplementary Information.

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
Northeast Iowa Mental Health Center
Decorah, Iowa

We have audited the financial statements of Northeast Iowa Mental Health Center (a nonprofit corporation) as of and for the year ended June 30, 2006, and have issued our report thereon dated August 17, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Northeast Iowa Mental Health Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Northeast Iowa Mental Health Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Northeast Iowa Mental Health Center in a separate letter dated August 17, 2006.

This report is intended solely for the information and use of the Board and management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Hacker, Nelson & Co., P.C.

Decorah, Iowa
August 17, 2006

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MANAGEMENT LETTER

To the Board of Directors
Northeast Iowa Mental Health Center
Decorah, Iowa

In planning and performing our audit of the financial statements of Northeast Iowa Mental Health Center for the year ended June 30, 2006, we considered the Center's internal controls to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The following summarizes our comments and suggestions regarding those matters. A separate report dated August 17, 2006 contains our report on the Center's internal control. This letter does not affect our report dated August 17, 2006 on the financial statements of Northeast Iowa Mental Health Center. These comments are not intended to and do not constitute legal opinions. Comment 1 was also included in last year's management letter.

1. Segregation of Duties

During our review of internal controls, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of Northeast Iowa Mental Health Center's financial statements. The financial and grant reporting is primarily the responsibility of one person. As a result, interruption of some accounting functions could occur if they were unable to perform their duties.

Recommendation

We realize that with a limited number of office employees, segregation of duties is difficult. However, the Center should review the operating procedures to obtain the maximum internal control possible under the circumstances. The Center should also consider the potential consequence of reliance on one person for financial and grant reporting.

Response and Corrective Action Planned

This issue is reviewed annually through the audit review with the Board of Directors. The size of the agency prevents further segregation of duties.

Conclusion

Recommendation stands.

We would like to acknowledge the many courtesies and assistance extended to us by the personnel of Northeast Iowa Mental Health Center during the course of our examination.

If you have any questions concerning these or other matters, we would be happy to discuss them with you at your convenience.

Hacker, Nelson & Co., P.C.

Decorah, Iowa
August 17, 2006